

# ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Jackson Analyst: Colin Stevens Bill Number: AB 1105  
Related Bills: See Legislative History Telephone: 845-3036 Amended Date: 6/15/99  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Repeal Information Reporting Requirements of Cities Regarding Businesses

### SUMMARY OF BILL

This bill would remove the requirement that cities that maintain a computerized record-keeping system or which have access to such a system annually furnish the Franchise Tax Board (FTB) with information regarding taxpayers who pay city business license taxes.

This bill also would make various other statutory changes. These other provisions will not be discussed, as they do not affect the Franchise Tax Board.

### SUMMARY OF AMENDMENT

The June 15, 1999, amendment removed the prior provisions of the bill and inserted the language discussed in this analysis.

### EFFECTIVE DATE

As an urgency measure, this bill would take effect immediately upon enactment.

### LEGISLATIVE HISTORY

Repeal of this reporting requirement originally was included in the Governor's budget bill, but was not agreed to during the Budget Conference Committee.

### SPECIFIC FINDINGS

**Current state law** requires that each city that maintains a computerized record-keeping system or has access to such a system and that assesses a business license tax or fee furnish annually to the FTB a list of all businesses subject to tax in the preceding year. This list must include:

- business name,
- address,
- federal employer identification number,
- type of business activity,
- amount of annual business tax, and
- any other information as the FTB may require.

When requested, the state reimburses cities for costs incurred in connection with furnishing this required information. **Currently**, the FTB uses information provided by cities and counties, the Board of Equalization (BOE), and the

#### Board Position:

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#### Department Director

#### Date

**Gerald Goldberg**

**6/28/1999**

Department of Consumer Affairs' occupational license program to identify taxpayers who have a license to operate a business but who have not filed a tax return for a given year. Once identified, the taxpayer is contacted by the FTB and requested either to file a return or notify the department why a return was not filed. If a taxpayer does not comply with the request for information or fails to file a required tax return upon notice and demand, the FTB may issue a proposed assessment based on available information.

**This bill** would remove the requirement that cities that maintain a computerized record-keeping system or which have access to such a system annually furnish the FTB with information regarding taxpayers who pay city business license taxes.

#### Implementation Considerations

By repealing the requirement that cities provide the FTB with information on businesses paying license taxes or fees, the effectiveness of the filing enforcement program would be somewhat diminished.

#### FISCAL IMPACT

##### Departmental Costs

The repeal of this program would, beginning with fiscal year 1999-2000, result in a minor savings to the department from reduced costs to process the filing enforcement workload attributable to the city business license tax program.

##### Tax Revenue Estimate

Based on data and assumptions discussed below, this bill would have the following revenue effects in the initial five fiscal years.

Estimated Revenue Impact of AB 1105 As Amended 6/15/99 [\$ In Millions]				
1999-00	2000-01	2001-02	2002-03	2003-04
no impact	-\$3	-\$14	-\$19	-\$21

Beginning in 2006-07, net losses would reach a level of \$28 million and continue to grow incrementally each subsequent year. Estimates assume that city business tax (CBT) information for the 1999 and subsequent taxable years would not be provided by cities.

In addition to obtaining current year compliance, filing enforcement programs are designed to encourage affected taxpayers to comply voluntarily in future years. Any erosion of indirect revenue attributable to the CBT program would increase revenue losses attributable to this bill. (Indirect revenue is the voluntary payment of tax liabilities for subsequent tax years by affected taxpayers.)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Tax Revenue Discussion

Fewer assessments and potentially less compliance on a self-assessed basis by taxpayers would determine the revenue impact of this bill.

Each year the department receives 1.7 million business records from city business license sources. The PIT filing enforcement program that is based on city business license sources is projected to generate about \$28 million in direct payments attributable to the 1999 taxable year (direct payments are directly attributable to departmental filing enforcement activities). For subsequent taxable years, direct payments are projected to increase at a rate of 6% annually. If three-quarters of the projected amount would not be identified through other information sources, revenue losses would be on the order of \$21 million. Collection data indicates that the \$21 million would be collected over a period of approximately six-years.

Aggregating CBT information provided by cities creates a database consisting of all businesses including cash-based, self-employed individuals. Since cash-based, self-employed individuals are less likely to be identified through other information sources, a three-quarters assumption is used above rather than a half as used with other estimates relative to specific components of CBT information. The most relevant other information source is the various Forms 1099. Although various information sources are acquired at different times, all sources are used at the same time for filing enforcement purposes.

### BOARD POSITION

Pending.